APPENDIX

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

At a stated Term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse in the City of New York, on the twenty-third day of May, one thousand nine hundred and seventy-five.

Present:

HON. J. EDWARD LUMBARD,
HON. PAUL R. HAYS,
HON. WILLIAM H. MULLIGAN,
Circuit Judges.

74-2452

DIEMATIC MANUFACTURING CORP.,
Plaintiff-Appellee

—v.—

PACKAGING INDUSTRIES, INC.,
Defendant-Appellant.

Appeal from the United States District Court for the Southern District of New York.

This cause came on to be heard on the transcript of record from the United States District Court for the Southern District of New York, and was argued by counsel.

On Consideration Whereof, it is now hereby ordered, adjudged, and decreed that the appeal from the order of said District Court be and it hereby is dismissed with costs to be taxed against the appellant.

A. Daniel Fusaro,
Clerk

By Vincent A. Carlin
Chief Deputy Clerk

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 728—September Term, 1974.

(Argued April 23, 1975 Decided May 23, 1975.)

Docket No. 74-2452

DIEMATIC MANUFACTURING CORP.,

Plaintiff-Appellee,

—against—

PACKAGING INDUSTRIES, INC.,

Defendant-Appellant.

Before:

LUMBARD, HAYS AND MULLIGAN,

Circuit Judges.

Appeal from an order of the United States District Court for the Southern District of New York, Hon. Lloyd F. MacMahon, *J.*, granting the plaintiff's application for a stay of arbitration proceedings and denying the defendant's cross-motion for a stay of the federal action pending completion of the arbitration proceedings.

Appeal dismissed.

ELIOT S. GERBER, New York, New York (Wyatt, Gerber & Shoup, New York, New York, Guy W. Shoup, of Counsel), *for Plaintiff-Appellee.*

GERARD A. DUPUIS, New York, New York (Miller & Summit, New York, New York, Stuart A. Summit, Ruth Balen, of Counsel), *for Defendant-Appellant.*

MULLIGAN, *Circuit Judge*:

This is an appeal by Packaging Industries, Inc. (Packaging) from an order of Hon. Lloyd F. MacMahon, United States District Judge for the Southern District of New York, which granted the application of Diematic Manufacturing Corp. (Diematic) to stay arbitration proceedings and denied Packaging's cross-motion for a stay of the federal action pending arbitration.

In 1965, Packaging commenced an action against Diematic in the court below alleging infringement of its patent No. 3,170,275 entitled "Means for Heat Sealing Lids on Blisters." That litigation was terminated by a Stipulation of Dismissal "with prejudice" dated July 5, 1968 and a Settlement Agreement effective June 6, 1968. The Agreement granted Diematic a license to make, use and sell, for a nine-month period, trays which embodied the patent in question. It also provided for the payment of royalties to Packaging and contained an admission by Diematic of the validity of the patent and its agreement not to contest its validity. The Agreement further included an arbitration clause which provided in part: "Questions of interpretation, enforcement and all disputes between the parties arising from this agreement shall be submitted to arbitration in New York City under the rules and auspices of the American Arbitration Association."

On March 20, 1974, Packaging filed a demand for arbitration against Diematic alleging that the latter had vio-

lated the 1968 agreement by merchandising and selling trays which infringed the Packaging patent subsequent to the expiration of the nine-month license period. On April 5, 1974, Diematic brought the present action in the Southern District of New York seeking injunctive, declaratory and monetary damage relief, which we will discuss in detail hereafter. By notice of motion dated the same day, Diematic moved for a stay of arbitration pending the outcome of its suit. By notice of motion dated April 18, 1974, Packaging cross-moved for a stay of the action brought by Diematic pending completion of the arbitration, and, by notice of motion dated May 3, 1974, moved for an order dismissing the complaint pursuant to Fed. R. Civ. P. 6 and 12(b)(1). In a memorandum dated September 13, 1974, Judge MacMahon granted Diematic's motion for a stay of arbitration, denied Packaging's cross-motion for a stay of this suit pending arbitration and denied Packaging's motion to dismiss the complaint. Packaging then filed a timely notice of appeal from the first two of these decisions.

Discussion

Although the issue was not briefed initially, counsel, at the request of the court, have submitted memoranda on the underlying question of the appealability of the order before us.

It is clear that this court has jurisdiction of appeals from all *final* decisions of the district court. 28 U.S.C. §1291. Plainly, the order here in question is not final. The defendant Packaging's motions to stay the federal action and to dismiss it were denied; the cause of action therefore survives and whatever defenses Packaging wishes to present in the answer it has not yet filed remain to be liti-

gated. Packaging does not dispute this proposition but urges that an order which grants or denies a stay of proceedings is appealable under 28 U.S.C. § 1292(a)(1), which provides that district court interlocutory orders which grant or refuse to grant injunctive relief are within the appellate jurisdiction of the court of appeals.

The question therefore is whether or not the order below staying arbitration proceedings and denying the stay of the federal action pending arbitration is an interlocutory injunction within the meaning of 28 U.S.C. § 1292(a)(1). The order staying arbitration itself is clearly not an injunction within section 1292(a)(1), as this court has squarely held in prior cases. *Greater Continental Corp.* v. *Schechter*, 422 F.2d 1100, 1102 (2d Cir. 1970); *Lummus Co.* v. *Commonwealth Oil Refining Co.*, 297 F.2d 80, 85-86 (2d Cir. 1961), cert. denied, 368 U.S. 986 (1962). In this respect, the order is therefore not appealable.

The question as to whether the refusal to enjoin the federal action constitutes an appealable interlocutory order under section 1292(a)(1) is not as readily answered. For better or for worse, by reason of Supreme Court case law, which, while binding, has not been particularly clarifying, we must examine the essential nature of the underlying action and the purpose of the order respecting the stay before we can determine whether or not that order is appealable. 9 J. Moore, Federal Practice ¶¶ 110.20 [3] & 110.20[4] (2d ed. 1973). This court in *Standard Chlorine of Delaware, Inc.* v. *Leonard*, 384 F.2d 304 (1967) adopted the rule of the Fifth Circuit, which provides:

> "An order staying or refusing to stay proceedings in the District Court is appealable under § 1292(a)(1) only if (A) the action in which the order was made

> is an action which, before the fusion of law and equity, was by its nature an action at law; *and* (B) the stay was sought to permit the prior determination of some *equitable* defense or counterclaim."[1]

Id. at 308, quoting from *Jackson Brewing Co.* v. *Clarke*, 303 F.2d 844, 845 (5th Cir.), cert. denied, 371 U.S. 891 (1962) (emphasis in original). This court has adhered to this "well-established rule" in later cases. E.g., *Greater Continental Corp.* v. *Schechter, supra,* 442 F.2d at 1102; *American Safety Equipment Corp.* v. *J. P. Maguire & Co.*, 391 F.2d 821, 824 (1968).[2]

The inquiry therefore must be directed to the nature of Diematic's action against Packaging. Count I of the complaint was labelled "Declaratory Judgment Action for Patent Invalidity and Non-Infringement", count II was captioned "Action to Enjoin Arbitration" and the final count was labelled "Action for Violation of the Anti-Trust

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[1] The second necessary element in this two-pronged standard of appealability is clearly satisfied here. It is the rule that a "special defense setting up the arbitration agreement is an equitable defense . . . ." *Shanferoke Coal & Supply Corp.* v. *Westchester Service Corp.*, 293 U.S. 449, 452 (1935); *Standard Chlorine of Delaware, Inc.* v. *Leonard, supra,* 384 F.2d at 308. Thus, Packaging's purpose in seeking a stay of the action was to permit the prior determination of some equitable defense.

[2] This complex rule is based upon the Supreme Court's decisions in *Enelow* v. *New York Life Insurance Co.*, 293 U.S. 379 (1935), and *Ettelson* v. *Metropolitan Life Insurance Co.*, 317 U.S. 188 (1942), under which "[c]ertain orders that do no more than grant or deny jury trial or determine the method or timing of trial have nevertheless been held to be 'orders . . . granting or . . . refusing . . . injunctions' within the language of 28 U.S.C. §1292(a)(1) and thus appealable." 9 J. Moore, *supra,* ¶110.20[3], at 240. Despite the suggestion at one time of a retreat from this doctrine, *City of Morgantown* v. *Royal Insurance Co.*, 337 U.S. 254 (1949), the Supreme Court remains committed to it. *Baltimore Contractors, Inc.* v. *Bodinger*, 348 U.S. 176 (1955).

Laws." In its prayer for relief, Diematic sought the following relief:

> 1. That the arbitration demanded by defendant against plaintiff be stayed and be permanently enjoined.
>
> 2. For a temporary and permanent injunction restraining defendant, its officers, agents, servants, employees and attorneys, and all persons in active concert or under the control of defendant, from asserting or charging that the use or sale by plaintiff or any of their customers of trays constitutes an infringement of U.S. Patent No. 3,170,275.
>
> 3. That this Court decree U.S. Patent No. 3,170,275 is not infringed by plaintiff or their customers.
>
> 4. That this Court decree U.S. Patent No. 3,170,275 to be invalid.
>
> 5. That plaintiff shall recover, under the provisions of the Clayton Act, threefold its damages sustained as a result of the defendant's actions as set forth above.
>
> 6. For the cost of this action and for reasonable attorney's fees.
>
> 7. For such other and further relief as this Court may deem just.

Where the action sought to be enjoined contains several counts and seeks declaratory and injunctive relief as well as damages, the application of the test of this circuit, depending as it does upon the characterization of the action prior to the fusion of law and equity, becomes troublesome. The venture is further complicated by our holding in

American Safety Equipment Corp. v. *J. P. Maguire & Co.*, *supra*, 391 F.2d at 824, that a declaratory judgment action is a creature of statute, and therefore is "neither fish nor fowl, neither legal nor equitable" for the purposes of applying the test. As a result, *American Safety* requires that we look to what the basic nature of the suit would have been had there been no Declaratory Judgment Act, 28 U.S.C. §§2201 & 2202. We have therefore placed ourselves in the unenviable position not only of solving modern procedural problems by the application of labels which have no currency, but also of considering the nature of law suits which were never brought. In view of the Surpeme Court paternity of the rule and the differences among the circuits[3] which have attempted construction of it, it is hoped that the Court or perhaps the Congress will clarify it before we sink further in the Serbonian Bog.

In applying the rule in *Standard Chlorine*, Judge Kaufman held (384 F.2d at 309) that an action "is to be considered equitable for [these] purposes unless the equitable relief sought can be characterized as 'merely incidental'." 9 J. Moore, *supra*, ¶110.20[3], at 244. An examination of the actions brought and the relief sought here would hardly justify the description of the requested equitable relief as "merely incidental".

The law suit here commenced by Diematic on April 5, 1974 was prompted by the arbitration demand of Packaging, which was filed on March 20, 1974. The relief which was of major moment was an injunction against the pending arbitration proceedings. As this court noted in *American Safety Equipment Corp.* v. *J. P. Maguire & Co.*, *supra*, 391 F.2d at 824, "a suit to enjoin pending arbitration pro-

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[3] The various decisions of the courts flowing from the *Enelow-Ettelson* rule are discussed in 9 J. Moore, *supra*, ¶110.20[3].

ceedings, coupled with a claim for declaratory relief, has a pronounced equitable cast."[4] In *Wilson Brothers* v. *Textile Workers Union*, 224 F.2d 176 (2d Cir.), cert. denied, 350 U.S. 834 (1955), the union announced its intention to submit a particular issue (the continued liability of the employer for accrued vacation pay under a terminated contract) to arbitration, and the employer responded by an action in the federal district court seeking a declaratory judgment with respect to its contractual obligations, as well as temporary and permanent injunctive relief against the union's resort to arbitration. The motions of the union to stay the suit and compel arbitration were granted. On appeal, this court reviewed the Supreme Court cases and concluded that "here the action is clearly of an equitable nature, and the stay [of the action pending arbitration] is not an appealable order." 224 F.2d at 177. Accord, *Armstrong-Norwalk Rubber Corp.* v. *Rubber Workers Local 283*, 269 F.2d 618 (2d Cir. 1959), discussed in *Lummus Co.* v. *Commonwealth Oil Refining Co., supra*, 297 F.2d at 85. Cf. *Greenstein* v. *National Skirt & Sportswear Ass'n*, 274 F.2d 430 (2d Cir. 1960) (*per curiam*). These authorities

[4] While it is true that the action referred to by the *American Safety* court in this passage (*American Safety* v. *J.P. Maguire & Co.*) was held to be appealable, it was only because the action was an integral part of a dispute between the plaintiff, American Safety, and a third party, Hickok Mfg. Co. That dispute produced a declaratory judgment action by Amercian Safety against Hickok which was commenced before any request for arbitration was made by Hickok; therefore, no injunctive relief was sought by American in its complaint. Here, as in *American Safety* v. *J. P. Maguire & Co.*, there was an arbitration pending and injunctive relief against it was sought. Hence, this suit, like the suit against Maguire, is equitable, and it can be viewed in isolation since, unlike that other action, it is not an integral part of a basic dispute involving third parties.

suggest that the underlying action here seeks equitable relief which is not at all merely incidental in nature.

Although the Sherman Act is the basis for the monopolization and attempted monopolization claim in count III of the complaint and one might therefore find it to be neutral under the reasoning of the *American Safety* case, the relief sought is money damages so that we consider it to be a legal claim, a position with which Diematic does not disagree. In any event, it is not the dominant claim made; it is solely based on the alleged invalidity of the patent and is incident to that underlying dispute between the parties. With respect to patent infringement, the action below sought not simply a declaration of non-infringement and invalidity but also, in paragraph 2 of its prayer, temporary and permanent injunctive relief against any claim by Packaging that the use or sale by the plaintiff of its trays constitutes an infringement. In paragraph 23 of the body of the complaint, the plaintiff urged that the defendant was in any case precluded from enforcing the patent because of estoppel and/or laches since it had had actual notice of the construction and the elements of the plaintiff's trays since 1969. We conclude, therefore, that the relief sought in the action which Packaging unsuccessfully attempted to have stayed was primarily, or at least not incidentally, equitable, that the damages sought in the antitrust action are properly characterized as incidental and that the order in question is therefore not appealable under the *Standard Chlorine* test, *supra*.

While the rule applied in this case is cumbersome at best and has mixed in it elements of the fantasies of Lewis Carroll and George Orwell, the policy of section 1291, which is the discouragement of piecemeal appeals,

is ultimately vindicated. See *Cobbledick* v. *United States*, 309 U.S. 323, 324-25 (1940); see also Judge Friendly's comments in *Lummus Co.* v. *Commonwealth Oil Refining Co.*, *supra*, 297 F.2d at 85-86. The result here is particularly appropriate since, on appeal, the appellant has raised for the first time the question of res judicata. Presumably, the defense will be raised in the answer, which has not yet been filed, and the district court can determine that issue in the first instance.

Appeal dismissed.

Consent Order

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

74 Civ. 1557—LFM

DIEMATIC MANUFACTURING CORPORATION,

Plaintiff

—v.—

PACKAGING INDUSTRIES, INC.,

Defendant

Upon consideration of plaintiff Diematic Manufacturing Corporation's Motion staying certain arbitration proceedings before the American Arbitration Association entitled "Packaging Industries, Inc., Petitioner vs. Diematic Manufacturing Corp., Respondent/Commercial Arbitration" commenced pursuant to a demand for arbitration made by defendant Packaging Industries, Inc. on March 21, 1974; and

Upon consideration of defendant Packaging Industries, Inc.'s Motion for stay of this action pending completion of the arbitration proceedings; and

Upon consideration of defendant Packaging Industries, Inc.'s Motion for an order dismissing the complaint for lack of subject matter jurisdiction and failure to state a claim upon which relief may be granted:

IT IS HEREBY ORDERED:

That plaintiff's application for a stay of the arbitration proceedings entitled "Packaging Industries, Inc., Petitioner vs. Diematic Manufacturing Corp., Respondent/Commercial Arbitration" is granted;

That defendant's cross-motion for a stay of this action pending arbitration is denied; and

That defendant's motion to dismiss the complaint for lack of subject matter jurisdiction and failure to state a claim upon which relief may be granted is denied.

SO ORDERED:

LLOYD F. MACMAHON
United States District Judge

Dated: September 30, 1974.

APPROVED AS TO FORM:

WYATT, GERBER & SHOUP
Attorneys for Plaintiff
230 Park Avenue
New York, New York 10017

MILLER & SUMMIT
Attorneys for Defendant
90 Broad Street
New York, New York 10004

Opinion

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

74 Civ. 1557—LFM

DIEMATIC MANUFACTURING CORP.,

Plaintiff,

—against—

PACKAGING INDUSTRIES, INC.,

Defendant.

APPEARANCES:

Wyatt, Gerber & Shoup, New York City, for plaintiff; Eliot S. Gerber, of counsel.

Miller & Summit, New York City, for defendant; Gerard A. Dupuis and Paul D. Siegfried, of counsel.

MACMAHON, *District Judge*:

Plaintiff, Diematic Manufacturing Corp. (Diematic), seeks an order staying certain arbitration proceedings before the American Arbitration Association, entitled "Packaging Industries, Inc., Petitioner vs. Diematic Manufacturing Corp., Respondent/Commercial Arbitration." The proceedings were commenced pursuant to a demand for arbitration made by defendant Packaging Industries, Inc. (Packaging), on March 21, 1974. Defendant cross-moves for a stay of this action pending completion of the arbitration proceedings and for an order dismissing the com-

plaint for lack of subject matter jurisdiction and failure to state a claim upon which relief can be granted. Rule 12 (b)(1) and (6), Fed.R.Civ.P.

Both plaintiff and defendant manufacture trays and toolings for impulse sealing machinery used in connection with transparent blister packaging of small consumer items, such as razor blades. Both hold patents covering the process by which they produce trays.[1]

On June 6, 1968, in settlement of litigation in this court brought by Packaging against Diematic for infringement of its patent, the parties signed a license agreement. Under the agreement, Packaging licensed Diematic to employ its patented process for producing trays for a nine-month period, beginning July 1, 1968. In addition to paying royalties to Packaging, Diematic admitted the validity of Packaging's patent and agreed "not to contest the same directly or indirectly." The agreement stated that:

> "[q]uestions of interpretation, enforcement and all disputes between the parties arising from this agreement shall be submitted to arbitration in New York City under the rules and auspices of the American Arbitration Association."

Packaging also agreed to sign a covenant not to sue, which was annexed as an appendix to the agreement. The covenant provided that Packaging would not, in reliance on its patent, sue Diematic in regard to the apparatus used by Diematic to produce trays.

All remained peaceful between the parties until March 20, 1974, when Packaging filed a demand for arbitration,

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[1] Packaging's patent is No. 3,170,275, issued February 23, 1974. Diematic's patent is No. 3,617,696, issued in 1971.

alleging that Diematic, subsequent to the expiration of the nine-month license period, had continued to manufacture and sell trays covered by Packaging's patent, thereby infringing the patent and breaching the agreement. Thereafter, on April 5, 1974, Diematic brought this action, seeking (1) a declaratory judgment that Packaging's patent was invalid and/or that Diematic was not infringing the patent, (2) a stay of the arbitration proceedings, and (3) treble damages for violation of the antitrust laws.

Plaintiff contends that the arbitration proceedings should be stayed because (1) the agreement has expired, (2) defendant's claim in arbitration is for patent infringement arising from its statutory patent rights and is, therefore, a case within the exclusive jurisdiction of the federal courts, and (3) arbitration is not, in any event, appropriate in this case.[2]

Plaintiff's first argument is without merit. Although the license granted to Diematic in the agreement was for a nine-month period, which has expired, the other obligations in the agreement, including Diematic's promise not to contest the validity of the patent, are not specifically limited in duration to a nine-month period or any other time limitation. These obligations are still in effect.

As Packaging urges, it would have been absurd for it to settle an action involving infringement of its patent and exact a promise from the alleged infringer, Diematic, that the latter would not dispute the validity of Packaging's patent for a mere nine months. The agreement makes sense only if it is seen as the granting of a limited license to Diematic by Packaging in exchange for Diematic's promise not to contest the patent thereafter.

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[2] Plaintiff also claims that arbitration is barred by defendant's covenant not to sue, but in view of our resolution of plaintiff's other arguments, it is not necessary for us to decide this issue.

When the parties intended to limit the duration of certain parts of the agreement, they knew how to do so, as in the granting of the license for only nine months. Diematic's promise not to contest the validity of the Packaging patent contains no such time limitation, nor does the contract itself state that it shall terminate after nine months. Thus, we think it clear that the nine-month period was not intended by the parties to apply to any obligation in the contract except the license.

Since the parties have not specified the duration of the covenant not to contest validity, that covenant remains in effect for a reasonable time under the circumstances.[3] In this situation, a reasonable time is the period during which Packaging's patent is valid and in effect. Since the patent has not yet expired nor been declared invalid, Diematic's obligation not to contest the patent remains in effect and any disputes relating to this continuing obligation are, of course, covered by the arbitration clause.

The second issue raised by plaintiff is more troublesome, and its resolution depends upon our interpretation of the claim raised in defendant's demand for arbitration. It has long been the law that not all cases involving patents or the interpretation of the patent laws fall within the exclusive jurisdiction of the federal courts under 28 U.S.C. § 1338(a).[4] Rather, the court must look to the claim asserted to determine whether it is created by the patent laws (*e.g.*, a claim for infringement) or is based upon some right created by state law.[5]

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[3] *Metal Associates, Inc.* v. *East Side Metal Spinning & Stamping Corp.*, 165 F.2d 163 (2d Cir. 1947).

[4] *Kysor Indus. Corp.* v. *Pet, Inc.*, 459 F.2d 1010 (6th Cir. 1972).

[5] See, *American Well Works Co.* v. *Layne & Bowler Co.*, 241 U.S. 257 (1916); *Koratron Co.* v. *Deering Milliken, Inc.*, 418 F.2d 1314 (9th Cir. 1969).

Thus, where a suit is based upon a license or royalty agreement and seeks specific performance or damages for breach of contract, the action does not "arise" under the patent laws and a federal court has no jurisdiction over the case absent diversity of citizenship.[6] Moreover, a state court may, if necessary to decide the case before it, determine questions involving the scope, validity or infringement of the patent.[7]

Plaintiff reads the statement of the "Nature of Dispute" in Exhibit A to the demand for arbitration as reciting a claim for patent infringement. Defendant replies that the claim is based solely on plaintiff's promise in the agreement not to contest the validity of Packaging's patent and, therefore, states a claim for breach of contract. Exhibit A, after reciting the underlying facts in the controversy, states that:

> "Respondent [Diematic] has manufactured used and sold trays covered by the patent and therefore has infringed and is infringing upon the patent owned by Claimant [Packaging] and has breached the Agreement."

In Exhibit B to the demand, Packaging seeks the following relief:

> "1. A full and accurate accounting of all revenues in any way attributable to [Diematic's] infringement upon [Packaging's] patent. . . .

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[6] *Luckett* v. *Delpark, Inc.*, 270 U.S. 496, 510 (1926); *Wade* v. *Lawder*, 165 U.S. 624 (1897); *Lear Siegler, Inc.* v. *Adkins*, 330 F.2d 595, 599 (9th Cir. 1964); *McMullen* v. *Bowers*, 102 F. 494 (9th Cir. 1900).

[7] *Pratt* v. *Paris Gas Light & Coke Co.*, 168 U.S. 255, 259 (1897); *Lear Siegler, Inc.* v. *Adkins, supra*, 330 F.2d at 600; *Imperial Appliance Corp.* v. *Hamilton Mfg. Co.*, 430 F.2d 185 (7th Cir. 1970). See, *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969).

2. A permanent injunction whereby [Diematic] will be prohibited from infringing upon [Packaging's] patent."

The language quoted above leads us to the conclusion that Packaging's claim rests both upon its patent and upon the agreement. Thus, two claims are raised—one for patent infringement, one for breach of contract. Obviously, the patent infringement claim falls within the exclusive jurisdiction of the federal courts under 28 U.S.C. § 1338(a) and may not be decided by the arbitrators or the state courts. This would leave the breach of contract claim to arbitration. Because of the nature of the issues raised by this claim, however, we think it should not be decided by the arbitrators and that consequently arbitration should be stayed.

The breach of contract claim is based upon Diematic's obligation not to contest the validity of Packaging's patent. Since such an obligation is "a covenant not to manufacture or sell the patented commodity without the consent of the patentee," [8] Diematic has, in effect, promised not to infringe Packaging's patent. Thus, the determination of whether Diematic has breached the agreement will necessarily depend upon whether an infringement has occurred. This issue of infringement, we think, as well as any related issues of patent validity, should be decided not by the arbitrators, but by a court of law.

Questions of patent law are not mere private matters.[9] The patent laws, in sharp contrast to the general federal policy encouraging free competition expressed in the anti-

[8] *Business Forms Finishing Serv., Inc.* v. *Carson*, 452 F.2d 70 (7th Cir. 1971).

[9] Cf. *American Safety Equip. Corp.* v. *J.P. Maguire & Co.*, 391 F.2d 821, 826 (2d Cir. 1968).

trust laws, grant limited monopolies to inventors.[10] Thus, the public has an important interest in the determination of patent validity and infringement, even though those issues may be decided in the context of a private lawsuit.[11] We think, as have other courts which have considered this issue, that the grave public interest in questions of patent validity and infringement renders them inappropriate for determination in arbitration proceedings.[12]

Our conclusion is reinforced by an analogous decision of our Court of Appeals in the antitrust field.[13] In *American Safety,* a party to a trademark license agreement sought to avoid arbitration of a claim for royalties under the agreement, claiming that the contract was void for violation of the antitrust laws. The district court refused to enjoin arbitration, but the Court of Appeals remanded for consideration of the antitrust issues by the district court, concluding that "the pervasive public interest in enforcement of the antitrust laws, and the nature of the claims that arise in such cases, combine to make [them] . . . inappropriate for arbitration."[14] The same considerations cited in *American Safety,* we believe, apply in the patent field and, therefore, we conclude that the issues raised by Packaging's claim are inappropriate for arbitration and that arbitration should, consequently, be stayed. It follows from our deci-

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[10] *Precision Instrument Mfg. Co.* v. *Automotive Maintenance Mach. Co.,* 324 U.S. 806, 816 (1945).

[11] *Lear, Inc.* v. *Adkins, supra,* 395 U.S. at 670.

[12] *Beckman Instruments, Inc.* v. *Technical Dev. Corp.,* 433 F.2d 55, 63 (7th Cir. 1970); *Leesona Corp.* v. *Cotwool Mfg. Corp., Judson Mills Div.,* 204 F. Supp. 141 (D. S.C. 1962), *aff'd,* 315 F.2d 538 (4th Cir. 1963); *Zip Mfg. Co.* v. *Pep Mfg. Co.,* 44 F.2d 184, 186 (D. Del. 1930).

[13] *American Safety Equip. Corp.* v. *J.P. Maguire & Co., supra,* 391 F.2d at 821.

[14] 391 F.2d at 827-828.

sion to stay arbitration that there is no reason why this action should not go forward and, therefore, defendant's motion to stay this action pending arbitration is denied.

We turn, now, to defendant's motion to dismiss.

Defendant first contends that we should, in our discretion, refuse to permit plaintiff to bring its claim for declaratory relief because this action is "simply an effort to invoke the jurisdiction of this court to the exclusion of the arbitration proceeding previously instituted." Citing *Public Serv. Comm'n* v. *Wycoff Co.*, 344 U.S. 237 (1952), defendant claims that proper respect for the arbitrators, as well as the nature of plaintiff's claim, indicate that we should not take jurisdiction of the declaratory claim. As we have already held, however, we think arbitration an inappropriate forum for determination of the patent questions raised by defendant. Thus, unlike *Wycoff*, there is no real issue of comity or respect for another forum here. Moreover, we are presented with a real case and controversy. Defendant, in its attempt to arbitrate the dispute, has alleged infringement of its patent. Plaintiff, by filing this suit, has denied both infringement and the validity of defendant's patent. Thus, a real dispute exists between the parties. The element of prematurity which was present in *Wycoff*, 344 U.S. at 245-46, is absent here. We conclude, therefore, that plaintiff has properly brought its declaratory action and refuse to dismiss it.

Defendant also argues, relying on Diematic's admission of the validity of the Packaging patent and its agreement not to contest it, that plaintiff is barred from bringing this action.[15] This contention need not detain us long.

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[15] Defendant directs this argument to the entire complaint, reasoning that the antitrust claim (Count III) rests upon an allegation that defendant's patent is invalid.

Several courts have held that a covenant not to contest a patent is void and unenforceable and does not bar raising the issue of validity, either affirmatively or as a defense.[16]

In *Lear, Inc.* v. *Adkins,* 395 U.S. 653, 670-71 (1969), the Supreme Court held that the doctrine of licensee estoppel will not bar a patent licensee from challenging the validity of his licensor's patent in a suit for royalties. The Court based its holding on "the important public interest in permitting full and free competition in the use of ideas" and the fact that "[l]icensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery." 395 U.S. at 670.

The considerations relied on by the Court in *Lear* are equally valid with regard to agreements not to contest patent validity and indicate that enforcement of such agreements is contrary to the policy and spirit of the patent laws. In light of *Lear,* therefore, we conclude, as have other courts to consider this issue, that agreements not to contest patent validity are void, as in conflict with federal patent policy.[17] Since Diematic's promise not to contest the validity of Packaging's patent is void, Diematic is not barred from bringing this action, and the motion to dismiss must be denied.

Accordingly, plaintiff's application for an order staying the arbitration proceeding, entitled "Packaging Industries,

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[16] *Business Forms Finishing Serv., Inc.* v. *Carson, supra,* 452 F.2d at 75; *Massillon-Cleveland-Akron Sign Co.* v. *Golden State Advertising Co.,* 444 F.2d 425 (9th Cir. 1971); *Plastic Contact Lens Co.* v. *W.R.S. Contact Lens Laboratories, Inc.,* 330 F. Supp. 441 (S.D.N.Y. 1970); *Kraly* v. *National Distillers & Chem. Corp.,* 319 F. Supp. 1349 (N.D. Ill. 1970); *Rialto Prod., Inc.* v. *Rayex Corp.,* 166 U.S.P.Q. 222 (Sup. Ct. Queens Cty. 1970).

[17] See cases cited above. Cf. *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.,* 329 U.S. 394 (1947).

Inc., Petitioner v. Diematic Manufacturing Corp., Respondent/Commercial Arbitration," is granted. Defendant's cross-motion for a stay of this action pending arbitration is denied. Defendant's motion to dismiss the complaint for lack of subject matter jurisdiction and failure to state a claim upon which relief may be granted, Rules 12(b)(1) and (6), is denied.

Settle order on notice within ten (10) days.

Dated: New York, N. Y.
September 13, 1974

LLOYD F. MACMAHON
United States District Judge